BALANCED BUDGET ACT/Conference Report, Passage

SUBJECT: Conference report to accompany the Balanced Budget Act of 1997 . . . H.R. 2015. Agreeing to the conference report.

ACTION: CONFERENCE REPORT AGREED TO, 85-15

SYNOPSIS: The conference report to accompany H.R. 2015, the Balanced Budget Act of 1997, will make changes to permanent law that, by Congressional Budget Office (CBO) estimates, will reduce the deficit by \$127.2 billion over fiscal years (FYs) 1998-2002 and by \$423.9 billion over FYs 1998-2007. Additionally, the bill will enact budget enforcement mechanisms that will require supermajority votes to exceed .5 percent annual growth in discretionary spending. By Senate Budget Committee estimates, the spending reductions from the current services baseline (the level of spending that would be required to maintain the present level of services, taking into account inflation and program participation rates, and assuming no changes to programs) will be approximately \$270 billion over 5 years. That estimate includes \$140 billion in savings from appropriated accounts that is assumed will occur because of the budget enforcement mechanisms that will be adopted. Over the next 10 years, spending will be reduced by nearly \$1 trillion below the current services baseline. Based on conservative CBO economic forecasts, and assuming Congress does not increase mandatory spending or exceed the discretionary spending caps over the next 5 years, this bill will balance the budget by 2002 and will allow substantial tax relief to be given to the American people (see vote No. 211). In addition to the savings, this conference report contains new taxes on tobacco and funding for a new, 10-year program that will provide funds as an entitlement to the States to pay for health insurance for currently uninsured children (no individual entitlement will be created). Another noteworthy item is that the bill will spend an additional \$13 billion on welfare over the next 5 years primarily to undo many of the changes of the Welfare Reform bill passed last Congress. Details, using CBO estimates, are provided below.

Medicare:

• Overview: Changes will be enacted that will reduce net projected outlays by \$115.086 billion over the next 5 years, mostly by ratcheting down payments to hospitals, nurses, doctors, and other Medicare providers. Also, home health care services will be

(See other side) **YEAS (85)** NAYS (15) NOT VOTING (0) **Democrats** Republicans **Democrats** Republican Republicans **Democrats** (43 or 78%) (42 or 93%) (12 or 22%) (3 or 7%) (0)(0)Abraham Jeffords Akaka Johnson Allard Ford Kempthorne Bennett Baucus Kennedy Ashcroft Hollings Bond Coats Wellstone Kvl Biden Kerrev Brownback Bingaman Enzi Lott Kerry Burns Lugar Boxer Kohl Faircloth Campbell Mack Breaux Landrieu Gramm McCain Chafee Bryan Lautenberg Grams Cochran McConnell Bumpers Leahy Helms Murkowski Collins Byrd Levin Inhofe Coverdell Cleland Nickles Lieberman Sessions Craig Roberts Conrad Mikulski Smith, Bob D'Amato Roth Daschle Moseley-Braun Thompson Moynihan DeWine Santorum Dodd Shelby Domenici Dorgan Murray Smith, Gordon Reed Frist Durbin Gorton Snowe Feingold Reid EXPLANATION OF ABSENCE: Grassley Specter Feinstein Robb Gregg Stevens Glenn Rockefeller 1—Official Business Hagel Thomas Graham Sarbanes 2—Necessarily Absent Hatch Thurmond Torricelli Harkin 3—Illness Hutchinson Warner Inouye Wyden 4—Other Hutchison SYMBOLS: AY—Announced Yea AN-Announced Nav PY-Paired Yea PN-Paired Nay

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transferred to Part B of Medicare. The changes and transfer will result in the Part A trust fund remaining solvent until 2007 (it is currently projected to become insolvent by 2001). The projected rate of growth of Medicare will be 6 percent annually instead of the current projected rate of 8.5 percent.

- Home health care transfer: home health care services will be partially transferred over 6 years from Part A (hospitalization) of Medicare to Part B (physicians' services) of Medicare. Part A payments are made from the Medicare Trust Fund; Part B payments are made from the general fund of the Treasury. The first 100 home health care visits after a hospital stay will still be covered under Part A. Part B services normally require a copayment of 20 percent; no copayment will be charged for the transferred home health care services. Part B beneficiaries pay a 25-percent premium for Part B; the taxpayers pay the other 75 percent of the program's costs. The premium increase that will come from the transfer of home health care services will be phased in over 7 years. The total amount of home health care spending that will be transferred from Part A to Part B through fiscal year 2002 will be \$40 billion; the total amount transferred through FY 2007 will be \$173.6 billion. For related debate, see vote Nos. 111, 121, and 127.
- Home health care savings: several changes to control home health care services costs, mostly intended to limit payments to providers, will be enacted, for an estimated savings of \$16.2 billion through 2002.
- Part B premium: the Part B premium will be kept at 25 percent instead of being tied to the Social Security cost-of-living adjustment (COLA) in 1999 as provided for under current law; with the interaction with the home health care transfer and other provisions, the net savings through 2002 will be \$14.9 billion. The taxpayers will continue to give a 75-percent subsidy to all Part B participants, no matter how rich those participants may be. See vote Nos. 113-114 for related debate.
- Medicare+Choice: A major reform of Medicare will be to give senior citizens access to the full range of medical plan options that are available to other Americans. Senior citizens will have the choice of remaining within the traditional fee-for-service (FFS) plan or opting for a Medicare+Choice plan. Medicare+Choice plans will include private FFS plans, preferred provider organizations, point-of-service plans, health maintenance organizations (HMOs), and medical savings accounts (MSAs; MSAs will be limited to 390,000 enrollees), and any other type of plan that meets specified standards. Numerous safeguards to ensure eligibility, affordability, the same or better coverage, and the ability to change plans will be enacted. Allowing more efficient means of providing Medicare will lower costs as well as improve services. The 5-year savings will be \$22.5 billion.
- The largest amount of projected savings, \$39.8 billion over 5 years, will come from lowering the projected rate of increase in payments to hospitals and skilled nursing facilities for taking care of Medicare patients; savings will include \$17.1 billion from prospective payment system (PPS) hospital payments, \$9.5 billion from skilled nursing facility payments (payments will be made under a prospective system), \$5.3 billion from PPS hospital capital payments, and \$600 million from disproportionate share hospital (DSH) payments.
- Other 5-years savings will include: \$5.3 billion from reducing projected payments to physicians; \$7.2 billion from cutting projected payments to outpatient service providers; \$5.6 billion from cutting projected spending on hospital indirect medical education (IME) payments; and \$900 million from cutting projected spending on hospital graduate medical education (GME) payments.
- Medicare capitated reimbursement rates will be partially equalized across geographic regions using a blended national/local rate formula. A minimum rate of \$367 will be set. No area will have a decrease in payments.
- New basic Medicare benefits will be provided, including: expanded mammography coverage; colorectal screening; diabetes self-management; and higher provider payments for preventative vaccines. The 5-year cost will be \$4 billion.
- The eligibility age for Medicare will NOT be raised from 65 to 67 over a 24-year period starting in 2003. For related debate, see vote No. 112.
 - Reforms to reduce waste, fraud, and abuse will be enacted for 5-year net savings of \$100 million. Medicaid:
 - Changes will be enacted for net savings of \$10.180 billion over the next 5 years.
 - Projected "Disproportionate Share Hospital" payments will be reduced for savings of \$10.4 billion over 5 years.
- \$1.5 billion over 5 years in Medicaid assistance will be given to States for them to pay all of the Part B premiums for Medicare beneficiaries between 120 percent and 135 percent of poverty (Part B premiums are already picked up by the Government up to 120 percent of poverty) and to pay the portion of the Part B premium attributable for home health care services for Medicare beneficiaries up to 175 percent of poverty. States also will be allowed to permit workers with disabilities with family incomes under 250 percent of the poverty line to buy into Medicaid.
- States will be allowed to pay Medicaid reimbursement rates as payment in full instead of Medicare reimbursement rates for people eligible under both programs. Medicaid payment rates are an average of 73 percent of Medicare rates for the same services. The estimated net savings will be \$2.1 billion.
- State flexibility to administer the Medicaid program will be enhanced, including by repealing the Boren amendment. For related debate, see vote Nos. 124-125.

Child health care initiative (State Children's Health Insurance Program; S-CHIP):

• \$23.1 billion will be provided over 5 years and \$46.2 billion over 10 years to insure currently uninsured children. See vote No.

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135 for related debate. Over the next 5 years, \$20.225 billion will be provided to the States as an entitlement for the S-CHIP program. An additional \$2.4 billion in spending will result due to the interaction of the Medicaid Program with the new program and \$500 million in spending will result from other expansions in Medicaid spending on children. The cost will be partially offset by the imposition of higher excise taxes on tobacco products (see below) and by higher estimated tax revenues that will come from employers offering higher taxable wages instead of health insurance to their employees who end up in this new Government program. The CBO estimates that the average annual number of children who will receive health coverage as a result of this program will be 3.39 million, 1.36 million of whom it estimates would have obtained other insurance if this program had not been available.

- For S-CHIP funds, States will have the option of choosing the Chafee-Rockefeller proposal to expand Medicaid coverage, of accepting a block grant to institute their own programs, or of accepting any combination thereof. States that choose the Medicaid option will receive a higher Federal matching amount, with an 85-percent cap on the Federal contribution. States will determine eligibility, except that children now eligible for Medicaid will not be put under group health plans. Children up to age 19 will be coverable. States will be able to cover children up to 200 percent of poverty; if they already do, they will be able to cover them up to 250 percent.
- None of the funds will be used to pay for abortions, except in rape, incest, and life-of-the-mother cases. For related debate, see vote No. 129. States, however, will be allowed to use their own funds to pay for elective abortions.
- If a State chooses the block grant option, it will have to provide benefits that are equivalent to the benefits provided under a Blue Cross/Blue Shield standard plan under the Federal Employee Health Benefits Plan (FEHBP), a State employee health benefits coverage plan, or a plan offered by the largest HMO in a State. The actuarial value of the following services will have to be at least as great as the actuarial value of those services; in the above-listed benchmark plans: inpatient and outpatient hospital services; physicians' surgical and medical services; laboratory and x-ray services; and well-baby and well-child care, including immunizations; the actuarial value for the following services will have to be at least 75 percent of the value in a benchmark plan: coverage of prescription drugs; mental health services; vision services; and hearing services. For related debate, see vote No. 128. The existing State plans in New York, Florida, and Pennsylvania will be approved. A State will be allowed to use up to 10 percent of its allotment: for direct services (including payments to disproportionate share hospitals); community outreach services; and administration.
- States will be denied S-CHIP funds if they increase the restrictiveness of their income and resource standards for children's eligibility for medical assistance.

Other welfare provisions:

- \$3 billion in welfare-to-work grants will be given to the States to help them meet the Temporary Assistance for Needy Families (TANF) Program's work requirements (this funding will be in addition to the more than 100 job training programs that the Federal Government currently funds); approximately \$2.7 billion of this amount will be spent through FY 2002;
- \$11.525 billion will be provided over 5 years: to restore Supplemental Security Income (SSI) and Medicaid benefits to legal noncitizen immigrants who arrived in the United States on or before August 22, 1996; to extend refugee eligibility for SSI benefits to 7 years from 5 years; and to treat aliens whose legal status is unclear as though they were legal aliens for the purpose of giving SSI benefits.
- \$1.5 billion in additional spending will be provided over 5 years for the Food Stamp Program in order to allow States to exempt up to 15 percent of able-bodied adults aged 18-50 without dependents from the work requirements, and to increase job training program slots for such people (job training may be used to fulfill work requirements).
- The conference report does not address the Administration's ruling that labor laws will apply to TANF workfare programs and that welfare benefits will not count as part of workfare compensation; the Governors have pressed for that ruling to be reversed.

Other provisions:

- \$21.4 billion in deficit reduction over 5 years will be achieved from spectrum auctions.
- In 2001, \$3 billion will be placed in the Universal Service Commission fund. This action will increase the deficit by \$3 billion. In 2002, \$3 billion will be taken from the fund and put back in the general fund of the Treasury. This action will be scored as decreasing the deficit by \$3 billion.
- Housing reforms will be enacted for \$1.7 billion in savings over 5 years; also, changes to permanent law will be made that will make possible \$824 million in future discretionary savings from housing programs.
 - \$1.8 billion will be saved from student lending. For related debate, see vote No 126.
- Employee contributions to the Civil Service Retirement Fund (CSRS) and the Federal Employees Retirement System (FERS) will be increased (for a 5-year revenue increase of \$1.770 billion).
 - Agency contributions to the CSRS will be increased.
 - \$2.7 billion will be saved from Veterans' Affairs (VA) direct spending.
 - States will be required to verify that Food Stamp benefits are not being given to families for individuals who are in prison.
- The Federal excise tax rate on cigarettes will be raised from 24 cents per pack to 34 cents per pack effective January 1, 2000; the rate will increase further to 39 cents per pack effective January 1, 2002; other tobacco excise taxes will be increased proportionately; the new tobacco taxes will raise an estimated net amount of \$5.167 billion through FY 2002 and of \$16.667 billion

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through FY 2007. See also vote No. 210.

• The Federal Government will assume control of the District of Columbia's police officer, firefighter, and teacher pension fund; the District will keep \$1.275 billion, and the Federal Government will get the other \$3.2 billion in assets and will assume the full \$9 billion in liabilities.

- The District of Columbia's Lorton prison, located in Virginia, will be closed by 2002 and the city's prison administration responsibilities will be transferred to the Federal Bureau of Prisons.
- Budget enforcement procedures include the following:
- Binding limits on discretionary spending will be extended through FY 2002. Such limits have been imposed since 1990 and have been effective. Exceeding those limits will require a three-fifths majority (60) vote in the Senate. Those limits will allow .5 percent annual growth. Separate limits will be set for defense and nondefense spending for FYs 1998-1999. Separate limits will be set for Violent Crime Reduction Trust Fund spending for FYs 1998-2000. These limits will be waivable by majority votes for emergency spending.
 - Spending in excess of the discretionary spending limits will be subject to sequester.
- The current-law PAYGO, or pay-as-you-go, provisions will be extended through 2002 (those provisions require that any new mandatory spending or tax cuts be offset by mandatory cuts or tax increases).
- A bipartisan Senate task force will be created to study, and make recommendations on, Senate floor procedures for considering reconciliation bills. For related debate, see vote No. 148.
- The Commerce Department's Bureau of Economic Analysis will use the "domestic product chain-type price index" instead of the "fixed-weight index" when calculating inflation adjustments to baseline spending.

Those favoring passage contended:

Argument 1:

This conference report, and the conference report to the companion tax relief bill that the Senate will also consider and pass today, are of historic significance. With these two measures the Senate will shift the course of the Federal Government. The budget will move into balance, and the American people will be given long overdue tax relief. The Senate rarely considers bills of this magnitude. It usually has debates on measures that have effects in the billions, or sometimes only millions, of dollars. When it debates spending cuts, it often fights for weeks or months over a few billion dollars. This conference report, though, over the next 10 years will result in nearly \$1 trillion in spending cuts from the current services baseline. This fact makes this conference report unique.

For the past 60 years the Federal Government has been growing, and for most of that time it has been spending more than it has been collecting in taxes. Starting with the Great Society programs of the 1960s, Federal spending took off exponentially. The reaction of most Congresses, and most Presidents (with the exception of President Reagan) has been to call for greater taxes to try to keep up with the growing spending. Americans have had to give up ever greater shares of their income in taxes, but spending has outstripped every tax increase. In 1983 President Reagan pushed through broad-based tax relief, predicting that if Americans were allowed to keep and invest more of their own money the economy would grow rapidly, and revenue collections would actually increase. He was correct; however, spending increased even faster, and deficits grew. Starting in 1985, spending on defense began a steady decline, but spending on domestic discretionary and entitlement programs escalated. The fastest, and most unexpected, spending occurred in the entitlement health care fields, principally Medicare and Medicaid. Three factors were, and are, at play in that growth. First, there have been huge advances in medical care, and many of those treatments are very expensive. Second, and relatedly, people are living longer. Third, the Government has not been able to respond to those advances as effectively as has the private sector. The part of the health care system in America that has grown out of control has been the part that has been run by the Federal Government. Compounding problems in the late 1980s was the Savings and Loan bailout. That bailout was necessary to save an industry that had to operate under Government rules and economic conditions in the 1970s and 1980s that made failures likely, and deregulation that made it possible to run up huge debts in often illegal efforts to save itself.

In 1990, Congress and the Bush Administration took the usual tack of trying to reduce deficit spending by increasing taxes (and promising spending cuts in the hazy future). Also, they made the politically painful, but responsible, decision to pay off the remaining Savings and Loan debt quickly in order to save money over the long term. In 1990, after a brief recession from those decisions, the economy started recovering. Republicans were blamed for that tax hike and were punished at the polls. The American people wanted spending cuts, not tax hikes. President Clinton was then elected, and he and a Democratic Congress pushed through the largest tax hike in history (with promises of spending cuts in the hazy future). The recovery slowed, and Democrats blamed the Federal Reserve for not pursuing an easy money (inflationary) policy. However, spending on the Savings and Loan bailout ended at the same time, which nearly offset the drag created by the tax increase. The economy inched forward until after the defeat of the Clinton health plan to nationalize all health care and the election of a Republican Congress (Democrats were punished in that election for the 1993 tax hike; again, the American people knew that the problem was that the Government spent too much, not that they were taxed too little).

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Since the election of a Republican Congress, the economy has taken off. That growth has been due to a variety of factors, including a continued sound monetary policy from the Federal Reserve, business restructuring, lower trade barriers, and fiscal changes from Congress, including cuts in discretionary spending and welfare entitlement reform. Our Democratic colleagues are convinced that the reason the economy is doing so well, and the deficit is declining, is solely that they raised taxes in 1993. (Though at times they will magnanimously allow that they think the tax hike in 1990 was a help as well.) We think they have a rather odd, and myopic, view of events. The country is growing basically because the rate of growth in Federal spending has been restrained, and the resulting higher revenues from growth are eliminating the deficit. We believe that the way to make the country grow even faster is to cut taxes and restrain spending even more, which is exactly the course that is followed on these two conference reports.

The most important aspect of the Balanced Budget Act conference report, which we are now considering, is that it will enact Medicare and Medicaid reforms. The growth in Federal health care expenditures is the main cause of deficit spending, and it is unsustainable. We are pleased that Congress and the President have had the courage to enact significant savings, but we note that we are very disappointed that many reforms that should have been enacted were not. Some of the so-called reforms, such as moving home health care services to Part B of Medicare, are basically accounting gimmicks, and most of the reforms are just attempts at price controls, which have failed miserably in the past. Price controls are either evaded, result in shortages of services, or result in inferior care being given. Also, many of the courageous, real reforms that the Senate adopted on a bipartisan basis, such as the increase in the Medicare eligibility age (in recognition of unavoidable actuarial realities), were dropped by conferees. The blame falls on both the Clinton White House and the House of Representatives. Still, we do not mean to downplay the significance of the market reforms that will be enacted in this conference report. Medicare beneficiaries are going to be set free from the Federal restraints governing the traditional Medicare program. They will have more health care options and services, and they will have them at less cost.

The other main aspect of this conference report that needs to be praised, with a note of caution, is the creation of a new program to provide health insurance to the children of working, low-income Americans. States will have the option of putting those children into the existing Medicaid welfare program or of finding other ways to insure them. We know that the Governors have already stated they want to be given control of Medicaid because it is bankrupting the States, and they think they can run it at much lower costs, so we doubt they will use the Medicaid option. Instead, they will find more effective and less costly solutions, we hope with a minimum of Federal interference. Our greatest fear with this bill is that this new Federal health program will mutate into another huge, inefficient, bureaucratized Federal welfare agency.

Though it sometimes seems as though Congress passes more 5-year plans than Joe Stalin, and with about the same success rate, we are convinced that this plan is different, and for three main reasons. First, all the other huge plans to balance the budget that have been passed, and that have failed, have failed because they did not address entitlement spending, the growth of which is the main reason we have deficit spending. This plan will make changes to permanent law that will require entitlement spending reductions over the next 5 years. No further action will need to be taken after we vote on this bill, and new entitlement spending will be very unlikely because of the extension of the PAYGO rules. Second, on the discretionary spending side, this bill will extend the domestic discretionary spending caps, which to date have been the only effective means of restraining discretionary spending. We are confident they will work because they have been working throughout the 1990s. Third, unlike earlier plans, it is based on conservative economic forecasts. The economy is growing rapidly for all of the reasons we cited above. Private enterprise, the Federal Reserve, and a Republican Congress have laid the groundwork for strong economic growth for the next several years. The CBO's numbers are the most conservative around; they factor in a mild recession. Certainly a major unforeseen event, such as a war, could cause continuing deficits, but as matters now stand this plan is very realistic. In fact, many forecasters predict that the economy is doing so well that we may even reach balance in a couple of years. The spending restraints demanded by this bill will be especially important if those forecasters are correct. In prior years, anytime the economy has done well, Congress has been unable to resist the temptation to increase spending, and deficits have still occurred. This time, the spending restraints will stop it and the budget will finally be balanced.

Whither hence? Balancing the budget by cutting spending is a beginning, not an end. It is a nonnegotiable first step. It took a great deal of effort to get Democrats to follow this approach instead of the failed approach of raising taxes, but we have finally succeeded. The greatest hurdle is still before us, which is coming up with a way to pay the Social Security and Medicare benefits for the babyboom generation when it retires. That problem has been largely ignored by this conference report. If it is not addressed soon, the battle of the last few years to get this balanced budget plan will seem like child's play in comparison.

Argument 2:

When President Clinton took control of the White House, the country had record-high deficits, and the danger that the Federal Government might slide into insolvency was very real. With great courage, he and a Democratic Congress passed a large tax hike and the country began to recover. After 12 years of aberrant fiscal policy under Presidents Reagan and Bush, the country was finally back on the right track. The economy is now growing so fast that the budget may be balanced in a year or two. This bill will make sure that it is balanced by at least 2002. It will also make the most significant expansion in the social welfare system in the last 30 years with the creation of the S-CHIP program for children, and it will undo many of the more mean-spirited provisions of the welfare

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reform bill passed last Congress. It will responsibly address the rising costs in Medicare by restraining the amounts paid to hospitals, doctors, and other providers, without in any way sacrificing the quality of care. Thankfully, this conference report will not increase the eligibility age, nor will it charge a copayment fee for home health care services, nor will it unjustly make some senior citizens with a little higher income pay more for their Part B Medicare. This conference report will keep faith with senior citizens, it will protect the poor, and it will guarantee health care for the children of low-income Americans who cannot afford to get their children insurance. This conference report was developed in a great spirit of bipartisanship, but we are proud to say that it is possible because we Democrats had the courage to raise taxes in 1993.

Those opposing passage contended:

Balancing the budget has long been a goal of many Senators. For a variety of reasons, that goal is now within reach. It is even within easy reach. This conference report will make that easy stretch and quit. We could not be more disappointed, nor could we be less surprised. This bill represents the least that the American people could expect out of Congress and President Clinton, and the least is all they ever get. We are not angry; we do not ascribe any vile motives to any of our colleagues; we know that most Senators are quite proud of what they have accomplished on this conference report. Unfortunately, we are witnessing the same systemic failure as always under which Members are rewarded for getting away with the greatest amount of spending possible for short-term benefits, regardless of the long-term consequences. The only reason we believe that Members have been willing to go as far as they have on this bill is that they realize that the baby-boom generation time bomb is getting much closer to going off. We had a golden opportunity to act this year. Republicans in Congress, and many Democrats, had the courage to say that some of the actuarial problems with Medicare had to be addressed. They were willing to take such overdue steps as saying that the eligibility age needed to be raised. Every year those steps are put off, the timeframe in which to respond is shortened and the cost of responding consequently snowballs. We had a President in the first year of his second term, and we had a Congress that was more than 1 year away from the next election. We had a roaring economy, with many experts saying that Congress needed to act quickly or the budget would balance all by itself and Congress could not then claim credit. With all of those unusually positive circumstances, all Congress could do is impose price controls and create a new health insurance program. No structural reforms to address entitlement spending will be enacted by this conference report. We will very probably have a balanced budget by 2002, or sooner, and we will very probably have deficits a few years later of unbelievable magnitude. Congress and the President had a chance to be courageous, but they of course chose cowardice, because taking painful actions now to avert disaster 10, 20, or 30 years down the line does not win votes today. This bill will probably lead to a balanced budget, and is to be commended for that fact, but we will vote against it in protest for missing the opportunity to ensure our country's long-term solvency.